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IN FOCUS

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U.S.-Latin America Trade and Investment

The 118th Congress is engaged in a range of legislative and oversight activities related to trade policy toward the Latin America and Caribbean (LAC) region, which is among the United States' most important regional trading partners. Historically, some Members of Congress have approached initiatives to strengthen economic relations with LAC partners as complementary to broader U.S. policy goals in the region, such as addressing political and economic instability, insecurity, and migration. For example, see CRS In Focus IF12538, *U.S. Efforts to Manage Western Hemisphere Migration Flows*, by Clare Ribando Seelke, Peter J. Meyer, and Shelby B. Senger.

Free Trade Agreements

Since 1994, the United States has strengthened economic ties with LAC countries through the negotiation and implementation of comprehensive free trade agreements (FTAs). Starting with the North American Free Trade Agreement (NAFTA) in 1994, which was replaced by the United States-Mexico-Canada Agreement (USMCA) in 2020, the United States currently has six FTAs with 11 LAC countries: Mexico, Chile, Colombia, Costa Rica, the Dominican Republic, El Salvador, Guatemala, Honduras, Nicaragua, Panama, and Peru. NAFTA established new rules and disciplines that influenced subsequent trade agreements on issues such as intellectual-property-rights protection, services trade, agriculture, dispute settlement, investment, labor standards, and the environment.

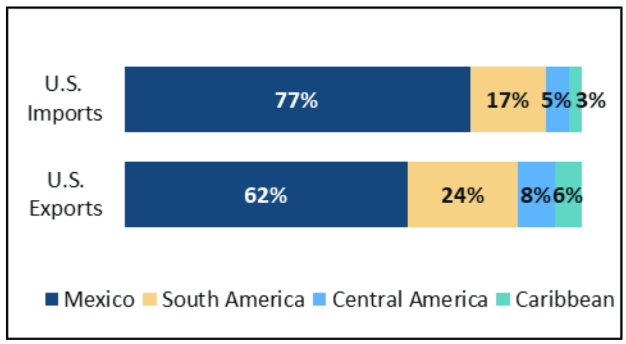
Trade Preference Programs

The United States has extended unilateral trade preferences to some LAC countries through several programs. The Caribbean-focused programs are known collectively as the Caribbean Basin Initiative, launched by President Reagan in the early 1980s in an effort to foster economic and political stability in the region. The 1983 Caribbean Basin Economic Recovery Act (CBERA, P.L. 98-67, subsequently amended, with no expiration) provides limited duty-free entry of selected Caribbean products. The Caribbean Basin Trade Partnership Act (CBTPA, P.L. 106-200, Title II), amended CBERA by expanding preferences; it was most recently extended through September 2030 (P.L. 116-164). Haiti receives additional preferences through several programs that are set to expire in 2025 and provide generous and flexible unilateral preferences to the country's apparel sector. The Generalized System of Preferences (GSP) program, which was first authorized in the 1970s and expired on December 31, 2020, provided duty-free tariff treatment to certain products imported from 120 designated developing countries, including several LAC countries.

US-LAC Trade

The United States accounts for roughly 31% of the LAC region's merchandise imports and 45% of its merchandise exports. Most of this trade is with Mexico, which accounted for 77% of U.S. imports from the region and 62% of U.S. exports to the region in 2023 (see **Figure 1**). In 2023, the value of total U.S. trade with the region declined slightly (1%), with U.S. merchandise exports declining from $542.8 billion in 2022 to $517.6 billion in 2023 and U.S. merchandise imports increasing from $603.7 billion to $620.7 billion. Major U.S. imports from the region include motor vehicles and parts, mostly from Mexico. Major U.S. imports from, and exports to, the region are in the electrical machinery and parts categories, which include electrical goods and components.

Figure 1. U.S. Trade with LAC Countries



Source: U.S. Census Bureau, as reported by Trade Data Monitor.

U.S.-LAC Investment

Since NAFTA entered into force in 1994, U.S. foreign direct investment (FDI) in LAC and LAC FDI in the United States have both increased almost ninefold (not adjusting for inflation). The region, which includes some of the world's leading tax havens, currently accounts for 16% of total U.S. FDI abroad. According to the U.S. Bureau of Economic Analysis, U.S. FDI stock in LAC stood at $1.04 trillion in 2022 (on a historical-cost basis), concentrated primarily in the British Overseas Territories (BOTs) of the Caribbean, including Bermuda (61%), Mexico (13%), and Brazil (8%). By sector, U.S. FDI in LAC was mainly in holding companies (46%), finance (26%), and manufacturing (10%), particularly transportation equipment. Employment by U.S. multinational enterprises' (MNEs') majority-owned foreign affiliates in LAC totaled 2.8 million workers in 2021, more than half of which were employed in Mexico.

As a source of foreign investment, LAC FDI represented 4% ($212 billion) of total FDI in the United States in 2022. It was held mainly in the manufacturing (18%), real estate (16%), and finance (10%) sectors, and top sources included the BOTs of the Caribbean (63%), Mexico (16%), and Barbados (5%). Majority-owned U.S. affiliates of LAC MNEs employed 430,100 workers in the United States in

2021; affiliates with ultimate owners in Brazil and Mexico were among the largest employers from the region.

U.S. investment policy toward LAC has generally focused on fostering U.S. and international investment in the region, including by facilitating U.S. firms' access to economic opportunities and supporting increased intra-LAC investment. Although some governments have introduced economic reforms over the past two decades, and the overall investment climate has improved, U.S. investors continue to face significant obstacles in LAC, including poor transportation and logistics infrastructure, rigid labor markets, corruption, complex and nontransparent legal and regulatory frameworks, and insufficient protection of property rights. Through U.S.-led initiatives—such as the proposed Free Trade Area of the Americas (FTAA) and the Biden Administration's ongoing Americas Partnership for Economic Prosperity (APEP)—the U.S. government has sought to address these obstacles, deepen economic integration, and bolster regional competitiveness. U.S. policy also seeks to facilitate U.S.-LAC investment, establish rules and disciplines, and enhance cooperation through other framework agreements, such as bilateral investment treaties (BITs), investment chapters of FTAs, trade and investment framework agreements (TIFAs), and bilateral tax treaties.

America's Partnership for Economic Prosperity

In June 2022, the Biden Administration officially launched APEP, an initiative that aims to bolster regional competitiveness and mobilize investment in the Western Hemisphere. In November 2023, attendees at the inaugural APEP Leaders' Summit announced a plan to use APEP as a forum-based initiative to drive inclusive growth in the region and strengthen critical supply chains, especially in the areas of clean energy, semiconductors, and medical supplies. A January 2023 White House fact sheet states that U.S. Secretary of State Antony Blinken and U.S. Trade Representative (USTR) Katherine Tai are moving the initiative forward with the initial signatories to the Joint Declaration on APEP: Barbados, Canada, Chile, Colombia, Costa Rica, the Dominican Republic, Ecuador, Mexico, Panama, Peru, and Uruguay. These countries and the United States represent 90% of the Western Hemisphere's GDP and nearly two-thirds of the region's population. With the exception of Uruguay, all the signatories already have FTAs with the United States.

The Biden Administration stated that the partnership "will foster regional competitiveness, resilience, shared prosperity, and inclusive and sustainable investment, while tackling the climate crisis, by seeking high standard agreements" under four policy pillars: regional competitiveness, resilience, shared prosperity, and sustainable investment. Some observers contend that the initiative comes at a critical time for U.S.-LAC economic relations, given the context of increasing Chinese influence in the region. During the past decade, China surpassed the United States as South America's largest trading partner. Critics contend that the proposed APEP lacks definition and may not meet its stated objectives, arguing that the Biden Administration has not developed a clear strategic plan for the Americas. They argue that the failure to address market-opening measures could lessen its impact. Critics also note that APEP, to date, does not include major economies like Brazil and Argentina.

Issues Before Congress

Congress may consider whether or not to respond, with oversight activities or legislative options, to the Biden Administration's initiatives regarding economic relations with the LAC region. Congress also may consider assessing the effectiveness of existing FTAs or other types of trade arrangements in the region, seeking broader market-opening measures such as the proposed FTAA of the mid-1990s, or examining proposals for a more defined strategic plan for the Hemisphere. For example, the proposed Americas Act calls on the United States to develop a coherent Latin America policy. One of its key proposals is a "pathway to membership" in the USMCA Agreement. Other Members of Congress have opposed efforts that would further open the U.S. market through FTAs.

Some Members of Congress have expressed increasing concerns about marked increases in LAC economic ties with China, whose interests in the region may at times conflict with those of the United States. At issue have been questions over lost U.S. export opportunities, as well as the potential implications of the region's growing economic interdependence with China, including as a result of China's financing and construction of strategic infrastructure projects through its One Belt, One Road (OBOR) initiative. Although China has become one of LAC's largest trading partners and a growing source of investment and development finance, FDI stock from China in the region is about half of that from the United States. Congress could assess whether or not to modify or enact additional trade or investment policies in response to the LAC region's evolving commercial relationships.

Congress also may examine the pros and cons of partial trade agreements, such as those reached with Brazil and Ecuador in 2020 on trade facilitation, anti-corruption, and good regulatory practices. Some Members of Congress favor these "mini" agreements as mechanisms to eventually develop and enter into comprehensive FTAs. Other lawmakers have argued that such agreements provide less leverage for reducing tariff and nontariff trade barriers, or for addressing concerns about the environment and workers' rights in these countries.

Policymakers also may consider how to use trade policy to boost regional economies, especially in Central America, to help address some of the economic causes of migration. For example, some Members have expressed an interest in the possibility of modifying CAFTA-DR's rules of origin in the textiles and apparel industries, with the aim of promoting investment, creating manufacturing jobs, and enhancing supply chains and economic opportunities in the region. Other Members have called for updating CAFTA-DR by incorporating similar provisions as those in USMCA, particularly on labor.

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